Right to Housing

Housing for All Manitobans

Proposals for Policy Changes to Re-engage the Federal Government in the Provision of Social Housing and to Enhance Private Sector Capacity To Build Affordable Rental Housing

May 2015

Right to Housing

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April 2015

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Housing for All Manitobans

Need for a Strong National Housing Policy

Proposals for Policy Changes to Re-engage the Federal Government in the Provision of Social Housing and to Enhance Private Sector Capacity To Build Affordable Rental Housing.

Executive Summary

Canada has a housing crisis. Evidence of this crisis is most visible in the line ups for food banks, for shelters, and in the city streets where many of the homeless pass hours in waiting. In Winnipeg, in winter, even the shelters are frequently forced to turn people away.

The absolutely homeless are just the iceberg tip of the housing crisis. For every person on the street, at least three others are in hidden homelessness, staying in temporary accommodations, on couches with friends or family, and at least ten more are in core housing need living precariously in housing that is unaffordable, overcrowded or in disrepair.

When we consider the depths of Canada's current housing crisis, it is easy to forget that we were once a world leader in making housing available to all our citizens. In the decades after the Second World War, a national housing policy supported the creation of social housing in partnership with provinces, churches, non-profit agencies, and cooperatives. Today, one million Canadians are living in affordable and subsidized housing that is a legacy of that period. If funding had continued, the magnitude of today's housing need would have been substantially diminished.

In the 1990s housing was devolved to the provinces. The federal government retreated from housing provision and policy. This has left a patchwork of benefits across the country and a housing system that is disjointed and fails to meet the needs of low and moderate income Canadians.

There are two segments of Manitoba's population for whom Canada's housing system is not working**:** those living in poverty needing social housing and moderate income households seeking private rental accommodations. The federal government can and should play a part in helping both groups.

For those in deep poverty, market housing will never provide suitable affordable housing. Direct involvement in the housing market by government is required to pay the deep subsidies these families need. In Manitoba, one in five households, including families on employment and income assistance (EIA) and many working poor households have incomes too low to afford even median rent – often the level deemed to be affordable by government programs. There is a critical shortage of rental housing of all types, and for

those with very low incomes, the demand for social housing that is provided on a rent geared to income basis is acute. Despite recent provincial investments in building social housing, the demand far outstrips supply.

For moderate income families living in rental housing, there are also significant gaps. Rental housing annual construction fell from over 100,000 units in 1970 to as low as 5,000 units in the late 1990s. In Winnipeg, between 1992 and 2013, there was a net loss of nearly 5000 units of rental housing due to condo conversions and demolitions. Some recent provincial and municipal incentives have begun to kick start rental housing construction in Winnipeg. Even so, on a per capita basis, the rental housing supply has dropped from 8.5 units per 100 people to 6.9 units since 1992. For less expensive rental housing, that in the cheapest quartile of all rental housing, the vacancy rate remains at 1.3% percent.

The problems and issues relating to housing in Manitoba are representative of housing problems across Canada. Many of these issues are even greater in larger, more expensive urban centres such as Vancouver, Calgary and Toronto.

Fortunately, many of the necessary tools are already at the federal government's fingertips. The Canada Mortgage and Housing Corporation was created as a crown corporation in the 1940s specifically to stabilize Canada's housing market. Gradually, the federal government has withdrawn from its role in social housing provision. Today, it provides only $253 million to CMHC across the whole country for new housing commitments. Meanwhile, the federal government has taken over $18 billion of CMHC's profit over the past ten years to reduce the federal deficit. Clearly, CMHC, with government leadership, has significant capacity to supply greater funds to social housing.

Both federal and provincial taxation measures affect the ability of private developers to build rental housing in Canada. Currently, taxation policy is skewed towards homeowners, making it difficult to build for rental markets. The resulting condo boom in many Canadian cities, and the corresponding lack of new rental housing, is a direct result of these policies. Recently, Manitoba has provided an 8% tax credit on some new rental construction with a percentage of affordable units – effectively rebating the PST to spur new rental development. Syncing policies across Canada could have even greater impact in making rental housing available for moderate income Canadians.

As well as funding social housing, the federal government has an important role in providing research into housing issues. Previously, the CMHC was an important funder of housing research in Canada, providing information on markets, affordable housing, energy efficiency, and building design. Funding for these services has recently been cut by 50%. Without a clear understanding of emerging needs and new technologies, it is difficult to build for the challenges of tomorrow.

Not so long ago, Canada had a remarkable record of providing all citizens with access to the basic necessities of survival. The growing line ups at shelters should remind us how far we have turned from our traditions. Thankfully, there is growing awareness of the need to make housing available for all Canadians. There is also knowledge about what needs to be done. However, it will take increased federal involvement to resolve a housing crisis that is decades in the making and national in scope.

Recommendations in the area of social housing provision are:

1. That Canada immediately initiate a new ten year social housing Rent-Geared-to Income (RGI) program funded by the average annual profits of the last five years of CMHC in partnership with Provinces and Territories. This will provide at least $2,000,000,000 annually, which can be levered by Provinces and Territories.

2. That the federal government direct CMHC to maintain the 2010 levels of support for social housing to ensure that when mortgage subsidies cease, support to projects is maintained so that projects do not have to evict lower income tenants to maintain project solvency.

3. That Canada reinstate CMHC's funding for research into housing needs and new housing strategies and technologies which was cut in 2013.

Recommendations in the area of rental construction taxation policy are:

4. That the federal government act immediately to substantially re-balance the Income Tax Act to enable a significant reduction in the soft costs of affordable rental housing in Canada by reversing the 1970s and 1980s changes in the Income Tax Act noted in this report and others cited in the Bibliography.

5. That the federal government invite Provinces and Territories to engage in the development of a package of taxation changes and incentives with a target of reducing the costs of affordable housing construction by at least 20% within two years.

6. That the federal, provincial and territorial governments develop a new Affordable Rental Housing Program (ARHP) by March, 2016 enable the private and non-profit sector to build affordable rental housing based upon the changes in taxation and other policy areas noted in this report and many other recent studies.

7. That this program require builders accessing the new taxation changes to establish initial rents at as close to median market rents as possible in the local community or neighbourhood where the project is located.

8. That the program be based on local provincial and territorial market conditions and administered at the provincial/territorial level.

Housing for All Manitobans

Need for a Strong National Housing Policy

Proposals for Policy Changes to Re-engage the Federal Government in the Provision of Social Housing and to Enhance Private Sector Capacity To Build Affordable Rental Housing.

Introduction

Most developed nations have a three-tier national housing policy, encompassing the provision of social housing for the poorest citizens, affordable rental housing for lower-middle income families and individuals, and market housing for the remainder. They know that the bedrock of social stability is affordable, accessible, decent housing for all citizens. ***Right to Housing,*** representing 51 organizations in Manitoba, believes that such a comprehensive policy would be strongly in Canada's national interest.

In Canada at present, only one of the three aspects of a national housing policy operates effectively, namely the provision of market housing for middle and upper income families. Even here, there are serious problems of affordability in many of Canada's larger cities. In significant part, this is related to the acute shortage of social housing, where rent is geared to income, and the almost total failure of *affordable* market rental housing. Both these aspects of housing policy can be addressed with leadership at the federal level, in collaboration with Provinces, Territories and Municipalities.

The first section of our brief outlines what needs to be done to meet the critical need for social housing which is geared to the income of the tenants, known as "Rent Geared to Income or RGI housing. We review the scale and depth of the problem and provide a reasonable and already available source of funding for a major new social housing program.

The second section builds on the work of many jurisdictions and agencies across Canada to make it possible to construct new rental housing that can be much more affordable to lower income families and singles. We identify a wide range of measures which can be taken by the federal, provincial and local governments which would materially reduce construction cost through tax expenditures which would significantly level the playing field between home ownership construction and rental construction.

While much of our data is drawn from Manitoba, we know from our networks and other studies that the situation is actually worse in some larger centres, and little better anywhere else. It is time for renewed federal government leadership to address housing policy and programs across Canada. The results will be increased economic stimulus, but more importantly, a great increase in the well-being of lower and modest income Canadian families.

Part One - Protecting and Enhancing Social Housing in Canada

Historical Context

From the end of World War Two until 1993, the federal and provincial/territorial governments participated in funding and delivering national housing programs that supported the development and operation of social housing. In 1993, Canada discontinued support for new housing projects, and in 1997, capped its contributions to existing social housing projects. For 48 years, Canada had a national housing policy that supported social housing. This policy supported public housing owned by provinces, sponsored housing owned by churches, legions and other organizations, and cooperative housing. The reasons it was and is needed are many and obvious. In every society in the developed world, there are families and individuals who cannot afford even the cheapest market housing. This may stem from illness, accident or systemic or situational poverty. The social and economic costs to society of not providing such housing are equally manifold. Poor housing is strongly linked with poor educational outcomes, poor connection to the labour force, increased illnesses, especially among children, and a host of other problems. Inevitably, these social costs are translated into the economic costs of poor labour force attachment, increased child welfare costs, increased health expenditures and so forth. The problem is that these costs, while very real, exist in the silos of government expenditures, and are rarely accounted for as costs of poor housing.

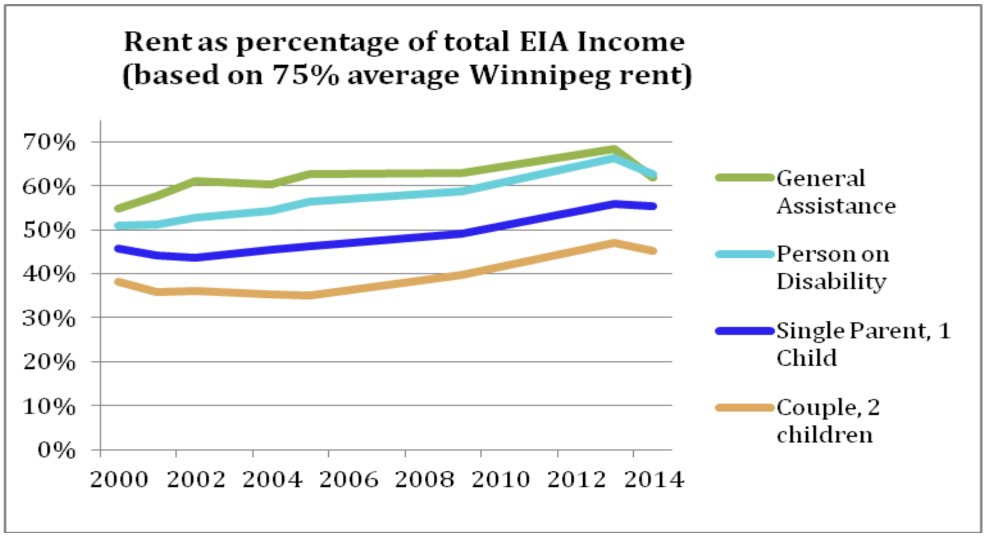
After 1993, the federal government abandoned social housing programs, and devolved existing programs to provinces and territories, along with a small amount of capital funding as a carrot to support devolution. As is usually the case, the funds were woefully inadequate to maintain the existing aging public housing stock. Even those provinces which may have wished to continue building social housing were faced with a very large bill for maintenance. Only British Columbia, Saskatchewan, Quebec and Manitoba have unilaterally continued to produce small numbers of social housing units. Without federal support, the numbers of new units falls far short of the need. To make matters worse and in spite of existing agreements, in 1997 the federal government unilaterally capped all subsidy support to existing projects, further shifting the burden of social housing onto provinces and territories.

In 2002, under great pressure from all provinces and territories, the federal government agree to share a new Affordable Housing Program, (AHI). While this program was helpful in supporting some low-end of market rental housing construction, it was time-limited and far short of the need, nor did it allow for new rent-geared-to-income (RGI) social housing.

It is important to remember the number of such unit that have been built in Canada. Manitoba has a total of 35,000 units or 5.8% of Canada's 600,000 units. Much of this critical housing stock is over 40 years old, and needs substantial investment to maintain basic structural elements in order to preserve this valuable and irreplaceable resource for families, seniors and persons with disabilities.

The Present - Problems and Opportunities

The chart below shows the current reality for Manitoba families on Social Assistance seeking rental accommodation. It is clear that neither adequate access to rental units nor affordable prices currently exist for many families.



This chart shows that even if rents are assumed to be only 75% of Winnipeg's average rent levels, social assistance recipients pay between 45 and 60 percent of their incomes for rent. Given that Statistics Canada deems 30% as an acceptable level for such costs, it is clear that rents far outstrip affordability.

However, it is not only social assistance recipients who lack access to affordable housing.

The chart on the next page shows the affordability of housing for various income groups. The table shows that for over 13% of Winnipeg's households whose incomes are under $20,000, whether on social assistance or not, *no form of housing is currently affordable*. The nine percent of households with incomes between $20,000 and $30,000 can only afford a bachelor suite if their income is over $23,400. To afford one bedroom suite, a family requires an income of more than $30,000 per year. This is cold comfort to families with even one child. To afford a 2 bedroom apartment requires an income of $40,600, and a three bedroom unit requires $47,520. While the changes recommended in part two of this brief could bring these income thresholds downwards by as much as $15,000 in family income, this would still mean that social housing, where rents are geared to income, is needed for more than 20% of Manitoba households.

Affordability of Average Rents in Winnipeg[1]

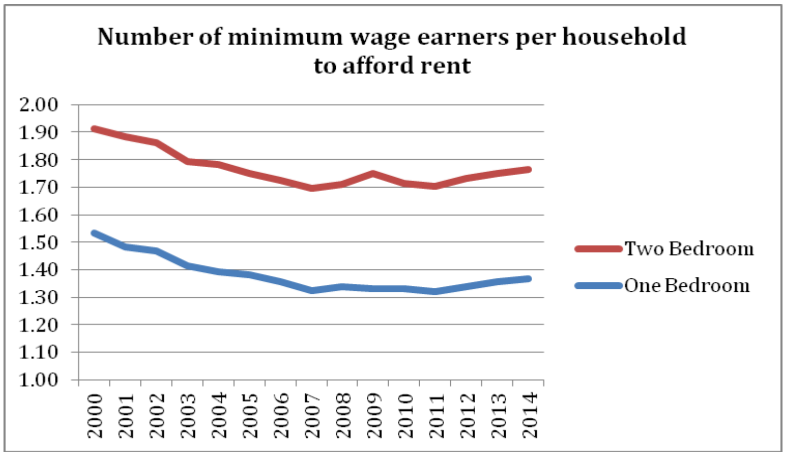
House-hold Income ($)	Monthly Affordability Range	Affordability of Average Rents (2014)				Proportion of Winnipeg house-holds[2] (2010)	Proportion spending more than 30% on shelter
		Bachelor ($585)	1 Bedroom ($771)	2 Bedroom ($1015)	3 + Bedroom ($1188)		
Under 10,000	< $250	Not affordable	Not affordable	Not affordable	Not affordable	5.2%	91.9%
10,000 - 19,999	$250-$500	Not affordable	Not affordable	Not affordable	Not affordable	7.9%	69.7%
20,000 - 29,999	$500 - $750	Not affordable < $23,400	Not affordable	Not affordable	Not affordable	8.9%	49.8%
30,000 - 39,999	$750 - $1,000	Affordable	Not affordable < $30,840	Not affordable	Not affordable	9.9%	28.0%
40,000 - 59,999	$1,000 - $1,250	Affordable	Affordable	Not affordable < $40,600	Not affordable < $47,520	18.1%	14.0%
60,000 and up	$1,250 - $1,500	Affordable	Affordable	Affordable	Affordable	50.0%	2.3%

This housing can take several forms, including traditional rent-geared-to-income (RGI), rent subsidies to individuals, rent subsidies to specific units in a non-RGI building, RGI units in a cooperative building or other alternatives. However, the principle is that rent simply cannot be at any market level, but must be geared to family income. As income changes, rents will also change, based on an annual assessment of income.

The claim that units built under the *Affordable Housing Initiative (AHI)* are being built that are actually "affordable" is a cruel myth for at least 30% of Canada and Manitoba's families. "Low end of Market" or "Median Market Rent" means rents that are well in excess of $900 per month, or $10,800 per year, before utilities. Even with Manitoba's low cost of energy, this means a family of 4 with a $30,000 income in a two bedroom apartment will spend at least $12,000 on rent and utilities, or 40% of their income.

It is also useful to examine the number of full-time workers at minimum wage that are needed to afford rental costs of a one or two-bedroom apartment. Many low-income families are headed by a single parent, so no housing is affordable for them. In 2014, between 1.4 and 1.8 full-time minimum wage earners are needed to be able to pay rent of 75% of the *average* rent for a one or two bedroom apartment. This will not buy very good housing.

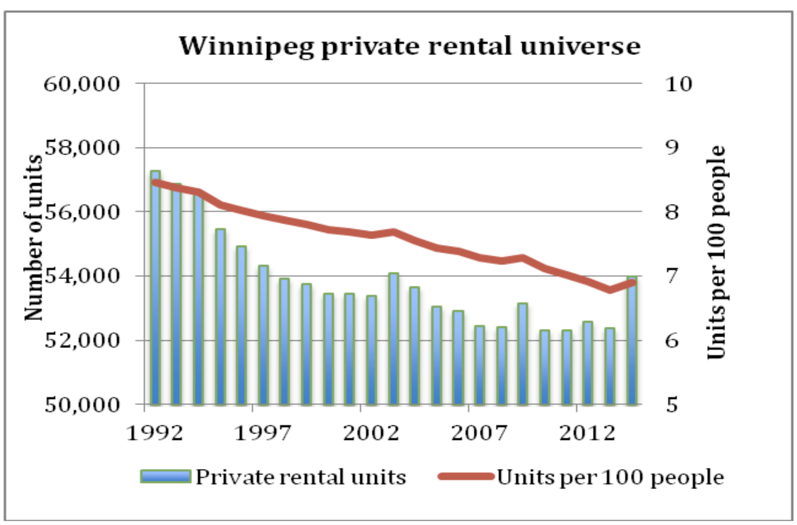
[1] CMHC's Winnipeg CMA Rental Market Report (Fall 2010) https://www03.cmhc-schl.gc.ca/catalog/productDetail.cfm?lang=en&cat=79&itm=49&fr=1307993619930
City of Winnipeg's 2006 Census Data. http://winnipeg.ca/census/2006/default.asp
[2] Statistics Canada, 2011 National Household Survey, Statistics Canada Catalogue no. 99-014-X2011028.



RGI housing is costly to provide, and hence from a public policy perspective, the universe requiring such housing should be as small as possible. That is why it is critical to couple a social housing program to an effective affordable housing rental program which is detailed in part two of this report. The latter can be largely based on tax expenditures, costs of which will be offset in part by the taxes gained on construction, but an RGI program requires actual expenditures of tax dollars.

It would be possible for these units to be provided directly by the public sector, or under contract from the private sector, in which case they should be built using all the tax expenditures noted in part one, so as to reduce the required monthly subsidies to rent by as much as possible.

The scale of the shortfall in market rental construction can be seen in the chart on the following page which shows that in Winnipeg, we have 2,300 fewer units today than in 1992, while the population has grown by over 100,000. More families are chasing fewer rental units, putting severe upward pressure on rents, and corresponding pressure on social housing as lower income renters are squeezed by both shortages of affordable units and competition for inadequate numbers of social housing units.

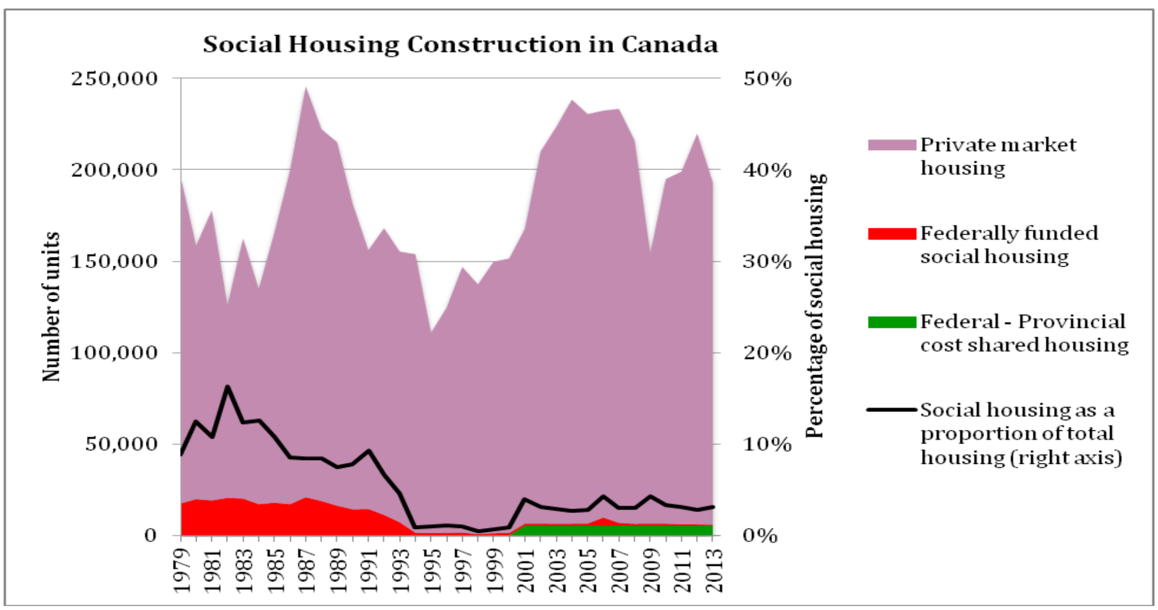


Canada Mortgage and Housing Corporation - Problems and Opportunities

CMHC and the provision of social housing

Since the end of World War Two, CMHC has played two critical roles in Canada's housing sector. First and foremost, it has been the vehicle used by successive federal governments, in partnership with provinces and territories, to provide a variety of subsidies to social housing projects across the country. In the past, this has been a great policy success for Canadians, with housing for veterans after WW2, then for seniors, and finally for lower income families and singles, as well as through a vibrant co-op movement. Hundreds of thousands of units were built in every corner of the country. All that came to an abrupt end in 1993, when the federal government ended all direct involvement in new social housing provision. Subsidies to existing projects were to continue until mortgages mature, but the total subsidy levels were frozen to 1997 levels, ensuring that in real terms, they fall every year as the burden shifts more and more to provinces. The following chart shows the abrupt end to RGI housing in the 1990s, and its very partial replacement by much more costly “affordable” housing under the current and soon-ending federal-provincial cost-shared program.

Since the mid 1970s, there have been over 40 different federal-provincial housing programs with varying methods of subsidies attached to them. This makes any discussion of how the subsidies worked, and the effect of their ending very complex. The following section outlines a basic framework encompassing most programs.



Sponsored Housing Projects

Between about 1976 and 1985, when mortgage rates were fairly high, the primary subsidy mechanism to sponsored projects was a write-down of mortgage costs to 2%. A calculation of the actual mortgage interest and principal was made, and a similar calculation of the same amount of principal at 2% was made, and the federal and provincial governments, usually in a 75/25 ratio, provided a subsidy to the project.

Because these mortgages were mostly 35 years in duration, it is these projects that currently are losing their subsidies as their mortgages are paid off. As buildings age and major renovations become necessary, projects frequently are forced to take out a new mortgage, which requires sharply increased rents, forcing lower income tenants to leave their homes. Furthermore, it is also important to note that the province was and is a 25% funder of these subsidies. Fortunately, Manitoba is continuing to make contributions to enable these projects to be viable, while it, along with all provinces attempts to get the federal government to re-engage in preserving this vital housing stock.

It is worth noting that with today's ultra low borrowing rates to senior governments, an RGI program could be launched today with much lower expenditure requirements than was the case when mortgage costs were 10% and more.

Cooperative Projects

During this same time period, co-ops were built and financed using index-linked mortgages and were provided with rent supplements which allowed 25% of the units to be rent-geared-to-income (RGI). In this case, a calculation was made of the difference between the market rent which would be charged for that unit in the co-op, and the RGI rent and this amount was paid to the co-op as a direct cash subsidy, usually in the same 75/25 ratio.

Public Housing Projects

From 1976-1985, public-housing projects which were built as RGI projects were subsidized either at a ratio of 75/25 or 50/50, depending upon the agreements between the federal and provincial/territorial governments.

Aboriginal Housing Projects

The aboriginal sponsored housing projects used a coupled system of mortgage write-downs to 2%, but also then provided RGI direct subsidies, making these programs function essentially as RGI public-housing programs, even though the subsidies came from two sources.

Summary

In the early 1990s, the federal government decided to leave the field of direct supply of social housing and signed devolution agreements with all provinces and territories, and provided a modest and quickly depleted cash fund to enable maintenance etc on the existing units. In 1997, the federal government capped its total funding for social housing subsidies at the 1997 amount. Because of this cap, the actual ratio of subsidies in Manitoba is about 60/40 today, with the federal level providing 60% and the province

40%. This ratio will continue to shift increasingly rapidly towards a greater provincial share as higher annual operating costs demand higher provincial funding.

Provinces are in a very difficult situation because they face four growing pressures:

- increasing operating costs of the existing portfolio,
- escalating maintenance costs as the existing units age,
- decreasing federal subsidies in real terms, and
- the end of subsidies to sponsored housing projects, exposing these aging projects to higher costs, forcing them either to rent to higher income tenants, thus reducing the RGI subsidy required, or to receive increased subsidies from the provinces/territories to make up for the federal withdrawal.

In addition, almost all new social housing projects now fall entirely on provincial/territorial funding sources.

As for CMHC, every year its costs are reduced by the end of mortgage and RGI subsidies. These savings are very large, and flow right to the bottom line of the federal government**. Studies have shown that cumulatively to the end of the current projects' mortgages, the federal government will save over $32 billion.**

Few Canadians know that CMHC makes very substantial profits annually, and pays taxes on these profits to the Government of Canada. In 2014, profits were $3,487,000,000 on which the corporation paid taxes of $862,000,000, leaving a net profit of over $2.6 billion. Last year, the federal government invested $2 billion in on-going programs, including $253 million in new commitments, almost totally to *Housing First* initiatives. This means that the federal government made $862,000,000 in taxes on CMHC's activities, and spent $600,000,000 **less** than CMHC's net profits on housing. In fact, CMHC' 2013 annual report proudly noted that over the mandate of the Harper Government, it has provided $17,000,000,000 of its profits to reduce the federal deficit. **It is true to say that Canada provides NO net support to ANY housing programs, and will save billions in future as current agreements expire.** Right to Housing believes this is wrong-headed policy. Hundreds of thousands Canadian families are desperately seeking decent affordable housing while the government makes huge net profits on CMHC`s housing activities. (Appendix 2)

This pattern of large CMHC profits now could now provide a source of funding for much needed RGI units across Canada. Consider what $2,000,000,000 could do each year for social housing, especially when levered at the local and provincial levels, or in collaboration with the volunteer sector. Then think about government borrowing costs of close to 2%, and thus what new housing units could be levered for Canada's low income families and individuals. These are possible policy and program directions for a new federal government whose budget is in balance, and whose housing arm is immensely profitable, and which actually understands the key role of housing in social capital formation and social stability.

Notwithstanding the possibilities outlined above, right now, today, we see a perfect failure for social housing - too little supply, no replacement strategy for existing aging inventory, and no new supply in sight.

An additional 600,000 Canadian families live in poorer and costly rental housing. Their children do not have the same chances as others in school, at home and in their future life. In return, the country suffers; suffers from a loss of productivity, from social breakdown linked directly to poor housing, and from cities failing to live up to their potential for safe neighbourhoods, decent housing and stable communities. What a waste!

Recommendations in the area of social housing provision are:

1 That Canada immediately initiate a new ten year social housing Rent-Geared-to Income (RGI) program funded by the average annual profits of the last five years of CMHC in partnership with Provinces and Territories. This will provide at least $2,000,000,000 annually, which can be levered by Provinces and Territories.

2 That the federal government direct CMHC to maintain the 2010 levels of support for social housing by ensuring that when mortgage subsidies cease, support to projects is maintained so that projects do not have to evict lower income tenants to maintain project solvency.

3 That Canada reinstate CMHC's funding for research into housing needs and new housing strategies and technologies which was cut in 2013.

Part Two - The Market Failure of Rental Housing Production

Background

Since the 1990s there have been a large number of studies and think-tank reports proposing a wide range of taxation and policy changes to enhance the capacity and responsiveness of the private sector to build rental housing. (see bibliography)

The need for such policies stems from the almost complete market failure of rental housing construction, particularly for lower income tenants, in large part stemming from the major changes to taxation laws between 1970 and the mid 1980s. Prior to these changes, rental construction in Canada reached over 100,000 units in buildings of five or more suites in 1970, but following the cumulative effect of these changes, fell to 5,000 similar units by the end of the 1990s. Apart from a small number of units developed under the now completed Housing and Homelessness program, construction levels have not improved significantly since then, and affordability has worsened.

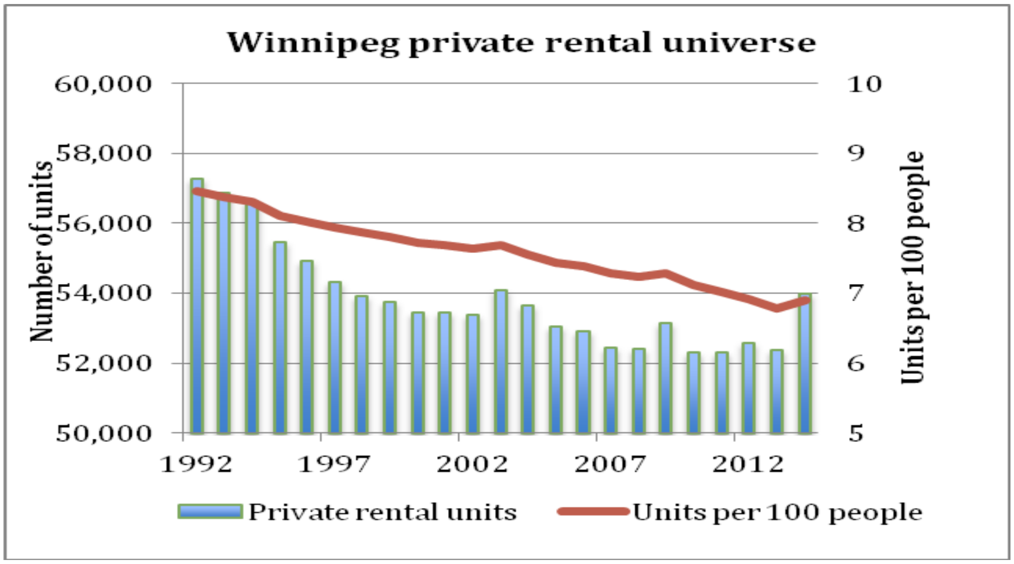
In Winnipeg for example, vacancy rates below for lower cost rentals are only 1.3%. Market rent for a new 2 bedroom apartment in a frame construction building is over $1400 per month, *not including utilities*. This is $400 above average market rent in Winnipeg, and would require a family income of over $56,000, to keep housing costs under 30% of gross income.

Vacancy Rates In Winnipeg 2014

Monthly Rent (Average Rent)	Vacancy Rates in Winnipeg CMA, October 2014[3]			
	Bachelor ($585)	1 Bedroom ($782)	2 Bedroom ($1015)	3 Bedroom + ($1188)
Under $500	1.3%	1.2%	Data unavailable	Data unavailable
$500-699	4.3%	1.2%	1.8%	Data unavailable
$700-899	5.0%	3.3%	1.4%	Data unavailable
$900-1099	Data unavailable	2.9%	2.1%	0.9%
$1100-1299	Data unavailable	3.4%	2.6%	3.2%
$1300+	Data unavailable	4.9%	6.3%	2.5%
Total	3.7%	2.5%	2.4%	2.0%

CMHC data on Winnipeg's rental universe, shows that in spite of the federal-provincial Affordable Housing Program,(AHI), Winnipeg has suffered a net loss of over 2,300 rental units since 1992. The loss is related to the actual loss of older stock, as well as high levels of conversion of rental units to condominiums. This has also had a dramatic influence on the ratio of rental units per 100 households, as shown in the chart below.

[3] CMHC. 2014, Fall. Rental Market Report: Winnipeg CMA. www.cmhc-schl.gc.ca



There are two underlying reasons for this market failure. First, the increased cost of new construction, both from the taxation changes referenced above and from the actual costs of wages and materials, means that market rents to recover these costs are far beyond the capacity of lower income families and singles. Secondly, there is a strong tax advantage to homeowners in the form of the capital gains exemption for primary residences, whereas capital gains on rental properties are taxed at 50%. The Federal Finance Department estimated that this exemption was worth more than $7 billion in 2007 and will have increased since then because of the further sharp escalation in housing prices. Other homeowner subsidies include the recent Home Renovation Tax Credit, GST rebates for first time new homeowners and other property tax grants.

Another stimulus for housing construction comes from CHMC's role as the primary mortgage insurer for any purchaser who has less than 25% equity down payment. This business has been very lucrative for CMHC, as Canada's mortgage default rate has been historically very low. This role has been part of Canada's strong program of indirectly subsidizing home ownership. Most Canadians may not understand that by requiring CMHC insurance for higher risk home purchasers, banks' and credit unions' mortgage rates for those families are lower than they otherwise would be.

In combination, these factors have driven residential construction strongly towards single family dwellings, town houses and condominiums. While good public policy may well require support for home ownership, communities also need affordable rental housing for those who cannot afford ownership, in spite of subsidies, and particularly for those beginning their work life, as well as seniors who are downsizing as their housing needs change with advancing age. The present federal income tax system is heavily biased against rental construction and longer term ownership of rental property.

There is also wide agreement that Canada badly needs much more affordable rental housing, a problem made worse by the aging of the rental stock that was built in the 1970s and 1980s. The Conference Board of Canada states;

“ *Consequently, approximately 25 per cent of Canadians rely on housing subsidies or experience periods where they spend over 30 per cent of their before-tax household income on housing. This negatively affects Canadians’ health, which, in turn, reduces their productivity, limits our national competitiveness, and indirectly drives up the cost of our health-care and welfare systems.*” (Building from the Ground Up, p ii)

Proposals to Re-balance the Rental Construction Market:

The housing industry, Chambers of Commerce, The Conference Board of Canada, Universities and other bodies have provided a long list of tools ranging from zoning and building code changes to a multitude of possible taxation changes that would shift incentives towards multi-unit rental construction. The City of Vancouver Report provides helpful tools to quantify the effects each measure would have on costs in that very expensive market. A partial list of these measures cited in various reports includes:

Federal and Provincial Tax Expenditure Measures:

1 Changes to capital cost allowances and depreciation allowances
2 Deduction of soft-costs
3 Rapid write-off in the early days of the project
4 Allowing rollover of capital gains on sale to a following purchase
5 Changing rules for passive investors
6 Use of flow-through shares
7 Eliminating capital gains tax on land or buildings donated for affordable housing
8 Implementing a Low Income Housing Tax Credit (LIHTC) similar to the US Federal Government program for affordable housing construction
9 Reduction/elimination of PST/GST/HST on affordable housing projects
10 Portioning of affordable housing projects at a lower rate for property tax purposes
11 Using tax-free bonds for designated affordable projects

Municipal Taxation and other Policy Measures

11 Property Tax Increment Financing (TIF) for affordable housing projects
12 Controlling demolitions and condominium conversions of existing rental housing
13 Zoning rules such as mandatory inclusion of affordable units
14 Reducing municipal development charges
15 Zoning density increase permission for affordable projects

Right to Housing, with great assistance from LADCO, a major land developer, has carefully examined the benefits of a combination of using just six of the above list of 16 measures. While this assessment was based upon one example of a current housing development, it provides a reasonable approximation of the significant effect that the regulatory and taxation measures have upon final costs of rental housing. Clearly, there is a great deal that government can do with very little loss of current revenue to reduce costs of construction very substantially. The detailed calculations for these six measures are contained in Appendix 1.

Even when only a small number of the proposed changes are taken into account, they can reduce the costs of construction by over $40,000 per rental unit. These savings could reduce the cost of a unit by over $250 per month, making rental housing accessible to a far wider number of Canadian families.

Furthermore, with the current cost of capital for construction being at an all-time low, and likely to remain low for at least two more years, today offers an enormous opportunity to lock in low-cost financing for new rental construction.

As is clear from the above, there is no shortage of mechanisms available to governments to re-balance the tax system in ways which would greatly reduce the cost of construction of affordable housing. Furthermore, such construction would have many benefits to an economy that is still struggling from the recent recession. Although most of these measures are *tax expenditures* by Canada, the provinces and municipalities, such expenditures are more apparent than real. This is because there is virtually no activity in this sector now, and hence no effective revenue. New rental construction of affordable units would also take some of the excess pressure off the home owner market while maintaining the overall building trades employment and industry by shifting the product being built.

Recommendations in the area of rental construction taxation policy are:

4. That the federal government act immediately to substantially re-balance the Income Tax Act to enable a significant reduction in the soft costs of affordable rental housing in Canada by reversing the 1970s and 1980s changes in the Income Tax Act noted in this report and in other reports cited in the Bibliography.

5. That the federal government invite Provinces and Territories to engage in the development of a package of taxation changes and incentives with a target of reducing the costs of affordable housing construction by at least 20% within two years.

6. That the federal, provincial and territorial governments develop a new Affordable Rental Housing Program (ARHP) by March, 2016 to enable the private and non-profit sector to build affordable rental housing based upon the changes in the taxation and other policy areas noted in this report and many other recent studies.

7. That this program should require builders accessing the new taxation changes to establish initial rents at as close to median market rents as possible in the local community or neighbourhood in which the project is located.

8. That the program be based on provincial and territorial market conditions and administered at the provincial/territorial level.

Summary:

From the above discussion, it is clear that Canada's housing market is seriously unbalanced. Very strong subsidies, both through lower mortgage rates and the $7B annual tax expenditure via the capital gains exemption for principal residences biases our market towards ownership. The result has been over-provision of ownership housing, rapid conversion of existing rental to condominiums, and severe under-provision of rental and social housing. As a consequence, about 42% % of the over 4.2 million Canadians who rent their homes are in core housing need, as defined by CMHC. This means that they have to spend more than 30% of their gross income on housing costs. (Source CMHC Canadian Housing Survey, 2013)

First, Canada must find ways to once again begin to provide social housing through both RGI and rent subsidies of various forms. It is clear that for many families, market rental housing is not affordable. Secondly, we must re-balance and thus re-energize the rental housing sector, largely through changes to the taxation of rental construction and rental ownership and management.

Fortunately, there is a strong degree of consensus across Canada that this combination of new taxation measures is needed, and is warranted on the grounds of leveling the playing field between rental and ownership housing. While any such set of initiatives would require clear regulation so that the benefits flowed to final rents and not simply to builders/developers, such regulations are already in place for the AHI, and could be easily modified for the new ARHP program.

Given that the proponents of such changes come from all sectors of Canada, including municipal governments, the construction industry, Chambers of Commerce, think tanks from various parts of the political spectrum, housing advocates, housing managers, and even the recent Drummond Report in Ontario, these proposals cannot be rejected on the grounds of the special interests of any one sector. Adequate, affordable housing is widely seen as critical to the national interest across the developed world. This is particularly true for growing cities, where Aboriginal and new Canadians seek to make a good life for their families, but face a critical lack of affordable housing.

Virtually everyone agrees we have a serious rental housing problem. There is equally wide-spread agreement that the housing industry is a great source of economic stimulus. Finally, there is virtually no truly affordable rental housing construction at present, so new tax expenditures to support affordable housing will result in a very minimal loss of actual current revenues.

Right to Housing
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Appendix 1

Gap Bridging Measures

The staff of LADCO, a Manitoba land development and construction company has provided assistance to Right to Housing to examine the impact of eight of the list of possible taxation and land use measures which have been suggested in this brief as measures that would materially reduce the cost of construction and ownership of rental housing.

The measures and their impacts were examined using a real project recently constructed in Winnipeg. This was a 300 unit four story frame building, with one, two and three bedroom units. Current market rentals for this building range from about $1100 - $1400 per month and do not include laundry. Parking is ground level, not covered, one space per apartment. The units' average costs were approximately $152,000 per door.

The *market gap* is the gap between new unit rental construction and median market rent that must be closed to bring unit rentals to the current median market rent and thus begin to serve average renters. In Winnipeg this is estimated to be over $45,000 per unit.

Measure:	**Effect per Unit**
Zero Rating on GST on building operation	$1,473
GST on Construction	$4,310
PST on Construction	$8,693
Capital Cost Allowance (at 10%)	$8,362
Tax Deferral on Sale	$4,226
Tax Increment Financing (TIF) Municipal + Provincial)	$13,878**
Total from the above six measures:	$40,942

Clearly, there is a great deal that government can do with very little loss of current revenue to reduce costs of construction very substantially.

**Note: In Winnipeg currently, the maximum effect of City+Provincial TIF is actually as high as $40,000. However, to reach this maximum, a development must have very high taxes, which would not be the case for a residential building such as affordable housing. This estimate is based on the building project noted above.

Appendix 2

(in millions)	2014			
	Plan	Actual	Variance $	Variance %
Parliamentary Appropriations for Housing Programs	1,945	2,010	65	3.3%
Premiums and Fees Earned	1,920	1,933	13	0.7%
Net Interest Income	127	102	(25)	(19.7%)
Investment Income	548	608	60	10.9%
Other Income	178	1,546	1,368	768.5%
Total Revenues	**4,718**	**6,199**	**1,481**	**31.4%**
Housing Programs Expenses	1,945	2,010	65	3.3%
Insurance Claims	413	328	(85)	(20.6%)
Operating Expenses	393	374	(19)	(4.8%)
Total Expenses	**2,751**	**2,712**	**(39)**	**(1.4%)**
Income before Income Taxes	**1,967**	**3,487**	**1,520**	**77.3%**
Income Taxes	473	862	389	82.2%
Net Income	**1,494**	**2,625**	**1,131**	**75.7%**
Total Assets	249,194	248,490	(704)	(0.3%)
Total Liabilities	232,346	230,308	(2,038)	(0.9%)
Total Equity of Canada	**16,848**	**18,182**	**1,334**	**7.9%**

Source: CMHA 2014 Annual Report. Available at: https://www.cmhc-schl.gc.ca/en/corp/about/anrecopl/anre/upload/68315_w_ACC.pdf
Image modified to highlight actuals.

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